Section IV: Resource Management

Modules contained within this Section include:

- Risk Assessment for Resource Management

- Maintenance of the Nonprofit School Food Service Account

- Paid Lunch Equity

- Revenue from Nonprogram Foods

- Indirect Costs

Module: Risk Assessment for Resource Management

Intent/Scope of Monitoring

The intent and scope of monitoring in this section is to apply a systematic approach to ensuring the overall financial health of an SFA's nonprofit school food service. This Section consists of a review of four areas integral to the financial health of the SFA's school food service. The SA may always supplement the review activity to include additional areas. The monitoring areas are:

- *Maintenance of the Nonprofit School Food Service Account*

  The SA must ensure that revenues and expenses* under the nonprofit school food service account are in accordance with 7 CFR 210.14. The nonprofit school food service expenses must be allowable — used only for the operation and improvement of the school food service — and net cash resources may not exceed three months' average operating expenses. (7 CFR 210.14)

  > *Note:* In assessing compliance with the Net Cash Resource's provision FNS has chosen to use the word "expenditure" for consistency with Federal regulations. In all other areas of the Resource Management (RM) Section FNS has chosen to use the word "expenses".

- *Paid Lunch Equity*

  The SA must ensure that SFAs comply with the requirements for pricing paid lunches. (7 CFR 210.14(e))

- *Revenue from Nonprogram Foods*

  The SA must ensure that SFAs comply with the requirement that *revenues from the sale* of nonprogram foods generate at least the same proportion of total school food service

account revenues that *expenses from the purchase* of nonprogram foods contribute to total school food service account food costs. (7 CFR 210.14(f))

In addition, the SFA must price adult meals so that adult payments are sufficient to cover the overall cost of meals, including the value of any USDA Foods used in the production of adult meals. (FNS Instruction 782-5 REV. 1)

- *Indirect Costs*

  The SA must ensure that SFAs follow fair and consistent methodologies to identify and allocate allowable indirect costs to school food service accounts. (2 CFR 225)

  > **Why use a Risk Indicator Tool?**
  >
  > The purpose of the *Resource Management Risk Indicator Tool* is to forecast and/or assess, through the use of known indicators, situations that may result in noncompliance.

Using a balanced review approach to monitor a SFA's resource management practices ensures that potential problems are identified while limited resources can be focused on those SFAs most at risk of noncompliance. The *Off-site Assessment Tool's* resource management section and the *Resource Management Risk Indicator Tool* are designed to help SAs target technical assistance and corrective action to those SFAs that demonstrate an increased risk of potential noncompliance and/or noncompliance with resource management requirements.

Review Procedures

Pre-visit Review Procedures

Off-site Assessment

Questions 700-712 in the *Off-site Assessment Tool* focus on the following areas: maintenance of the nonprofit school food service account, paid lunch equity, revenue from nonprogram foods, and indirect costs.

The information derived from the *Off-site Assessment Tool* will be added into the *Resource Management Risk Indicator Tool* by the SA. The Resource Management risk assessment procedures for SAs that will conduct RM comprehensive reviews at the SFA during the regular on-site Administrative Review are as follows:

> **The Resource Management Risk Indicator Tool**
>
> Identifies which SFAs are at risk for problems in resource management.

- Prior to the date of the on-site Administrative Review, the SA must collect the SFA's answers to the Resource Management questions 700-712 in the Off-site Assessment Tool electronically, via a hard copy of the form or verbally as part of a conversation with the SFA.

- After collecting the information, the SA must determine, by inputting the SFA's RM information into the RM Risk Indicator Tool, whether a comprehensive review of one or more of the four RM areas is necessary;

- When Resource Management comprehensive reviews are conducted on-site all RM risk assessments must occur off-site prior to the SA's on-site review of Resource Management. The State agency has the discretion to determine how far in advance of an SFA's on-site review the SA reviewer must conduct the off-site RM risk assessment.

The RM risk assessment procedures are generally the same as above for SAs that conduct required RM comprehensive reviews off-site and those that conduct the reviews separately from the rest of the on-site Administrative Review. In these instances, however, because the on-site Administrative Review does not include the monitoring of RM (since the review of this area is taking place at another time or off-site), it is not necessary to conduct the off-site RM risk assessment prior to the on-site review of the other Administrative Review areas. SAs must still gather information electronically, via hard copy or verbally from the SFA off-site to ensure they have the data they need to complete the RM Risk Indicator Tool and determine if a comprehensive RM review of one or more of the four areas is necessary. If a comprehensive review of any area(s) is required the State agency may conduct the review off-site.

The Resource Management Risk Indicator Tool identifies which SFAs potentially need further review or are at risk for noncompliance in the resource management areas. The Tool is expected to lead to a more targeted review that will ultimately provide

for streamlined, consistent, and effective management of program resources at the SFA level. Information provided by the SFA for the *Off-site Assessment Tool* and *Resource Management Risk Indicator Tool* should be based on the SFA's most recently completed school year unless otherwise indicated. In general, the Resource Management review period examined should be consistent throughout the review of the Resource Management Section. State agencies have the discretion to review an SFA's documentation from both the Resource Management Review Period or the current School Year, but must document the time period used in the RM Comprehensive Review Form if different from the RM Review Period/previous school year. For instance, a SA conducting a RM comprehensive review of PLE after the SFA's school board approved a new paid lunch price for the next school year may choose to review the SFA's PLE Tool for the prior school year and its most recently completed PLE tool. As a best practice, SAs should collect the information for the *Off-site Assessment Tool* from the SFA as part of an interactive discussion to ensure that the SFA fully understands the questions so that it can provide accurate information. If at any time the SA is concerned that any of the information provided by the SFA in the *Off-site Assessment Tool* is inaccurate, the SA must follow up with the SFA to ensure that the SFA understands the questions correctly and provides accurate answers.

Conducting an Administrative Review of a new SFA in its first year of operation provides an opportunity for an SA to ensure that the new SFA has a solid financial accounting system and sound practices in place. When reviewing a new SFA, the SA should not complete the *Resource Management Risk Indictor Tool*. Instead, the SA must use the Resource Management section of

the *On-site Assessment Tool* to document the SFA's policies and procedures in each of the four Resource Management compliance areas: maintenance of the nonprofit school food service account (including allowable costs and net cash resources), paid lunch equity, revenue from nonprogram foods, and indirect costs. During the on-site review of a new SFA's resource management policies and procedures, the SA reviewer should document any findings needing corrective action and/or technical assistance in the *On-site Assessment Tool*.

Using the Resource Management Risk Indicator Tool
While the *Resource Management Risk Indicator Tool* is designed to assess potential risk, it is not intended to be a comprehensive evaluation. Additional evaluation is required to determine whether problems actually exist.

The Tool includes four Resource Management areas integral to the financial health of the SFA school food service: Maintenance of the Nonprofit School Food Service Account, Paid Lunch Equity, Revenue from Nonprogram Foods, and Indirect Costs. At least one question is asked under each Resource Management area; some areas contain multiple questions that may indicate risk (risk indicators). See the modules under this section for more information about the resource management comprehensive review. It is important to note that not all of the questions associated with the risk indicators are intended to imply that the related activity is prohibited; rather, they merely reflect the possibility of a need for further review.

Review Procedures for SFAs receiving risk indicators in one or more Resource Management areas: If an SFA receives one or more risk indicators in one of the four Resource Management areas, the State agency must conduct a comprehensive review of the RM area in which the risk indicator(s) was received using the *Resource Management Comprehensive Review Tool*. If an SFA receives one or more risk indicators in more than one Resource Management area, the SA must conduct a comprehensive RM review of each RM area in which a risk indicator was assessed. For instance, if an SFA receives one risk indicator under the Maintenance of the Nonprofit School Food Service RM area and one risk indicator under the Revenue from

Nonprogram Foods RM area, the SA must conduct a comprehensive review of the Maintenance of the Nonprofit School Food Service RM area and a comprehensive review of the Revenue from Nonprogram Foods RM area. The SA must only perform a comprehensive review of all four Resource Management areas if the SFA receives one or more risk indicators in all of the four RM areas or if the Resource Management Risk Indicator Tool was not completed off-site prior to the Resource Management review If a SA has concerns about an SFA's financial management practices, FNS strongly encourages the SA to conduct a comprehensive review of one or more Resource Management areas. The SA has the discretion to conduct a comprehensive Resource Management review of any or all RM areas even if no risk indicators were triggered during the off-site assessment.

Comprehensive Resource Management reviews for all four RM areas may occur on-site or off-site. If the State agency reviewer wishes to conduct an off-site comprehensive review, the reviewer must be able to secure off-site from the SFA all financial documents needed to sufficiently assess the SFA's compliance with the RM requirements. Some RM areas, such as the Maintenance of the Nonprofit School Food Service Account and Revenue from Nonprogram Foods areas, require a review of invoices and other documentation which may take some time for the SFA to gather. For this reason, State agencies are strongly encouraged to secure the SFA's *Off-site Assessment Tool* and complete the Resource Management Risk Indicator Tool at the beginning of the school year (e.g., July-September) in which an SFA's Administrative Review AR will occur. This will provide sufficient time to the SFA to gather and provide any needed financial documentation the SA may need to conduct some or all of the RM review off-site.

FNS strongly encourages SAs to include the SA financial management staff in the analysis of the completed Resource Management portion of the *Off-site Assessment Tool* and the *Resource Management Risk Indicator Tool*. If necessary, SA financial management staff should also be included during the course of any resource management comprehensive review.

Areas of Risk

Off-site Assessment Tool questions included under each of the four Resource Management areas – Maintenance of the Nonprofit School Food Service Account, Paid Lunch Equity, Revenue from Nonprogram Foods, and Indirect Costs are identified below.

1) Maintenance of the Nonprofit School Food Service Account
Off-site Assessment Tool Questions

700) Did the SFA have the ability to accurately track all revenues and expenses transferred in and out of the nonprofit school food service account? (YES/NO)

701) Did the SFA have a fund balance in excess of three months average expenditures? (YES/NO/Yes, but the excess fund balance has been approved by the SA.)

702) Did the SFA transfer funds other than approved indirect costs out of the nonprofit school food service account to support the General Fund or for other non food service-related expenses? (YES/NO)

703) If the SFA purchased equipment costing $5,000 or more during the previous school year, did it receive prior approval from the State agency either directly or via the State's pre-approved equipment list? (YES/NO/NA)

704) Did the SFA have any financial findings related to the child nutrition programs on previous administrative reviews, A-133, OIG, or other state audits within the past three years? (YES/NO)

705) Did the SFA have internal control procedures in place to ensure that only allowable costs were charged to the nonprofit school food service account? (YES/NO)

Risk Indicators

The SA will conduct a comprehensive review of the SFA's maintenance of the nonprofit school food service account if any one of the following is found:

- The SFA did not have the ability to accurately track all revenues and expenses transferred in and out of the nonprofit school food service account;

- The SFA had a fund balance in excess of three months average expenditures and the balance has not been approved by the SA;

- If the SFA transferred funds out of the nonprofit school food service account to support other school operations.
- The SFA made equipment purchases that were $5,000 or above without first obtaining prior approval from the State agency;

- The SFA received a financial finding related to the Child Nutrition Programs on an Administrative Review, Coordinated Review Effort or audit, including the A-133, OIG, or other State audits, within the past three years;

- The SFA did not have sufficient internal controls in place to ensure that only allowable costs are charged to the nonprofit school food service account.

2) Paid Lunch Equity

Off-site Assessment Tool Questions

706) Did the SFA use the USDA Paid Lunch Equity Tool or a comparable mechanism to evaluate the need to raise its paid lunch prices? (YES/NO/NA, SFA is an RCCI or otherwise does not charge for lunches at any sites within the SFA)

If a comparable mechanism was used, explain which mechanism was used to address the required raise in prices. Provide detail on how much the SFA raised its paid lunch prices and/or how much in non-Federal funds the SFA transferred into its nonprofit school food service account to comply with the PLE requirements.

707) Did the SFA use non-Federal funds to support its paid lunch prices? (YES/NO/NA, SFA is an RCCI or otherwise does not charge for lunches at any sites within the SFA)

708) Did the SFA increase its paid lunch prices at the level required by the USDA Paid LunchEquity tool or comparable mechanism? (YES/NO/NA, SFA is an RCCI or otherwise does not charge for lunches at any sites within the SFA / No, the SFA received a PLE exception from the State during the RM review period.)

Risk Indicators

The SA will conduct a comprehensive review of the SFA's Paid Lunch Equity practices if the SFA:

- Did not use the USDA Paid Lunch Equity Tool or comparable mechanism to evaluate its paid lunch prices;

- Used non-Federal funds to support its paid lunch prices;

- Did not increase its paid lunch prices if the Paid Lunch Equity Tool or comparable mechanism indicated an increase in its paid lunch prices was required **or did not explain the process and mechanism that was used to increase paid lunch prices if required to do so.**

3) Revenue from Nonprogram Foods

Off-site Assessment Tool Questions

709)   Did the SFA sell second meals, Smart Snacks, and/or catering (e.g., foods/beverages for school board meetings; foods for outside entities and programs)? (YES/NO/NA)

710)   If the SFA provided adult meals for teachers and/or parents, did it charge and collect reimbursement from the adults receiving the meals or from the General Fund to cover the costs of the meals? (YES/NO/NA)

711) If the SFA charged for adult meals, were the meal prices charged in compliance with FNS Instruction 782-5, Rev. 1? (YES/NO/NA)

Risk Indicators

The SA will conduct a comprehensive review of Revenue from Nonprogram Foods if the SFA:

- Sold second entrees/items, Smart Snacks and/or catering;
- Provided adult meals for school staff and/or parents but did not collect reimbursement in full from the teachers and/or parents receiving the meals; and
- Did not charge adult meal prices in compliance with FNS Instruction 782-5, Rev. 1.

4) Indirect Costs

Off-site Assessment Tool Questions

712) Were indirect costs charged to the SFA's nonprofit school food service account? (YES/NO)

Risk Indicators

The SA will conduct a comprehensive review of indirect costs if the nonprofit school food service account was charged for indirect costs.

Technical Assistance/Corrective Action

FNS requires technical assistance and corrective action in all instances where the SA identifies violations of the resource management regulations or guidance. All documentation, including invoices and other materials needed to conduct a comprehensive review of allowable costs, may be gathered and reviewed off-site. However, SAs must assess their ability to secure the documentation they need to thoroughly conduct a comprehensive review of all areas receiving risk indicators. If the SFA is unable to provide all necessary resource management documentation in a timely manner to the State agency, the State agency must conduct an on-site comprehensive resource management review of any RM areas that received a risk indicator and for which efforts to obtain sufficient documentation to conduct an off-site review were unsuccessful. During the resource management assessment and review process, reviewers should refer to the *Resource Management Comprehensive Review Tool* for further guidance and instructions for how to assess a SFA's compliance and need for technical assistance concerning Federal resource management requirements.

FNS encourages the SA to conduct a follow-up review for repeated instances of resource management noncompliance. Needed corrective action and/or technical assistance must be recorded in the applicable comments section of the *Off-site Assessment Tool, On-site Assessment Tool,* or *Resource Management Comprehensive Review Form*.